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DIRECTORS

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TRAFFIC MANAGER
R. D. SHORE
TREASURER

R. J. Reynolds Tobacco Company.

WINSTON-SALEM, N.C. January 11, 1934.

To the Stockholders of
R. J. REYNOLDS TOBACCO COMPANY:

The Financial Statement of your Company at December 31, 1933 is submitted herewith.

Following consistent and substantial annual additions to the number of our stockholders, the year 1933 witnessed the largest increase of any year, the total now being in excess of 44,000 stockholders.

Net Earnings for the year 1933 were $21,153,721.50, or $2.11 per share, compared with $33,674,800.28, or $3.36 per share for 1932. Cash dividends of $30,000,000, or $3.00 per share, were paid in 1933. The earnings for the year 1933 include an item of $5,003,597.93 representing profit from disposal of Company's investment in its own Class B shares, which was announced through the press in July, as well as dividends received on such shares before disposition. As noted in the letter accompanying the Financial Statement of last year, an appropriation was made out of the income for that year in the amount of $4,000,000.00 representing the excess of reservation in 1932 for advertising over actual expenditures made therefor in that period. As then contemplated, this reserve has been used in the year 1933 for the purpose for which it was created and this accounts for the principal reduction in the item of Reserves for Contingencies in the Financial Statement.

It will be readily recognized that the lesser earnings for 1933 are a reflection of the abnormally low prices to which it was deemed advisable to reduce cigarettes under the greatly depressed conditions then generally prevailing.

Net current assets as shown by the accompanying Financial Statement at the close of the year aggregated $131,933,454.05, as compared with $132,611,884.45 at December 31, 1932. Cash and Government securities at the end of the year 1933 amounted to $49,156,115.81.

In view of the current position of the Company with regard to cash and Government security holdings, supported by the amount in the Undivided Profits Account, and recognizing that the reduced earnings of the year were accounted for largely by the abnormally low prices prevailing for cigarettes in 1933, the Directors deemed it proper to maintain dividends at the same rate as in recent years.

The retirement and insurance plans for the benefit of Company employees, put in operation some years ago, have been requiring, as anticipated, increasing expenditures. An actuarial analysis by a life insurance authority has indicated a probable cost to the Company over a period of years requiring an endowment of approximately $10,000,000.00. Having been long interested in making such provisions for its employees, and particularly in view of the increasingly evident public appreciation of such a policy on the part of industry, and because of the value to the Company of the greatly improved morale resulting from the security of mind of employees thus provided for, the Company hopes to continue in effect plans providing for insurance protection and old age pensions for faithful employees of long service. By way of effecting such continuance and at the same time relieving the Income Account of the burden on current revenues of increasing costs of these retirement and insurance plans, the Directors of the Company have established a Retirement and Insurance Investment Fund consisting of 200,000 shares of Common Stock which were acquired at $10,120,000.00, a per share cost considerably under the market price at any time during many years.

Out of the dividends received from these shares in 1934 and following years there is first to be credited to Company Income Account a sum representing a proper interest return to the Company on the amount invested. From the amount remaining the cost of defraying the expense of the retirement and insurance plans is to be met. Any amount thereafter remaining is to be carried to a reserve and used in reduction of the original Investment Fund. Likewise, a reduction in the Investment Fund is to be made each year in an amount equal to what would be paid on these shares as employee profit participation if, instead of being held in this Investment Fund, these shares were owned by employees. Under this plan the amount payable to officers and employees each year as participation is to be reduced by the amount thus carried to reserve and used in reduction of the Investment Fund.

Under this Investment Fund plan the immediate yearly expense to the Company of the retirement and insurance plans is to be eliminated and the cost in increasing amounts in future years is to be taken out of the Investment Fund's current income or accumulated reserves. Simultaneously, the amount invested by the Company in the Investment Fund is to be reduced each year and after a period of years these 200,000 shares are expected to stand on the Company's books and in its Financial Statements at the nominal cost of $1.00 with the income therefrom after that time available for indefinite continuance of the retirement and insurance plans.

Respectfully yours,

S. Clay Williams, President.